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Industrial Distribution

THE MANAGEMENT & SALES MAGAZINE FOR DISTRIBUTORS

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Industrial Distribution

THE MANAGEMENT & SALES MAGAZINE FOR DISTRIBUTORS

VOL. 80, NO. 5 APRIL 1991 A CAHNERS PUBLICATION

Cover photography by Tom Rogowski

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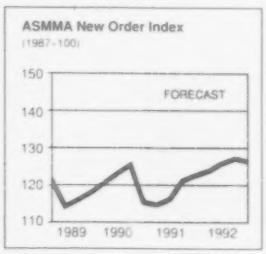

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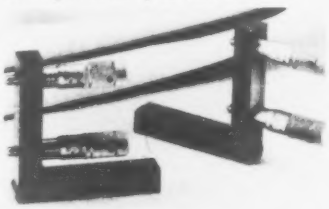

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Is J-I-T becoming S-O-P?

A quick check with leading electrical houses shows that as far as basic products are concerned, just- in-time deliveries are standard operating procedure.

By Robert G. Clifton, Contributing Editor

Inventory. You count it among your most valued assets. But many key customers see it as an avoidable liability. Avoidable, that is, if you deliver the "inventory" they want when they want it—just in time.

And while one of the core principles of just-in-time—helping customers contain the cost of possession—remains constant throughout distribution, there are some key differences in the way electrical supplies, on the one hand, and traditional mill supplies, on the other, get handled in J-I-T arrangements.

For example, Fred Friedrichs, vice president and manager, national sales division at Cameron and Barkley Co., explains that "once a J-I-T contract is signed with an industrial user, we aim to supply both electrical and industrial items using the same operating procedure." (Cameron and Barkley provides a particularly apt perspective on the issue, being a large distributor of both types of supplies.)

"However, behind the scenes, some differences exist in the ways we negotiate for J-I-T work and gear up to serve the customer," Friedrichs says. "For instance, because of the broader line of most industrial products, we usually must carry twice the inventory of industrial items for the same dollar of sales volume."

This, in turn, puts more responsibility on the distributorship's industrial suppliers to keep the pipelines filled. Such supplier performance is highly important, as all J-I-T contracts are closely graded for quality service—including on-time delivery.

PRODUCT SEGMENTATION

Another difference noted by Friedrichs relates to the bidding process in place at the new General Motors Saturn plant in Spring Hill, Tenn. Cameron and Barkley was evaluated as a potential vendor, he says, by two General Motors committees—one for industrial items and the other for electrical supplies. Friedrichs' firm won long-term contracts for both sectors.

Other supply contracts were for more homogeneous groups of prod-

ucts such as metals, cutting fluids and industrial gases. In all, twelve major contracts were let for a wide range of "indirect" (the automotive industry's term for MRO) products.

Because the average electrical distributor sells primarily to electrical contractors (44% of sales), and secondarily to industrial users (37% of sales), vendors in the electrical arena are not always geared up to provide the close inventory back up that successful J-I-T performance requires.

Ron Russell, marketing manager for Industrial Electrical Supply in Birmingham, Ala., finds it necessary to "sell" his vendors to convince them to provide adequate support. "We specialize in high tech and control equipment," Russell says, "and suppliers of these products are not as familiar with J-I-T needs as are vendors of more standard shelf goods."

This differentiation appears to suggest the old "chicken and egg" problem. Russell is sure that if he waved a long-term contract for electronic controls in front of his suppliers, their interest would pick up quickly. But, he ponders, can he successfully bid for such a contract without advance assurances of supplier support? "We keep jawing with them," he says, "and I'm sure they'll see the light soon."

Thomas & Betts Corp., producer of a broad line of electrical components, finds no special requirements from distributors to fill J-I-T needs. Charles Connelly, manager of distributor services, reports that the firm's *Total Quality of Excellence* (TQE) program smooths out potential rough spots before they develop.

"We know that some of our distributors' orders go to fill contracts, while others are destined for electrical contractor customers," Connelly says, "but we don't know which is which. In any case, we make only one high quality line, and deliver it faster than ever."

Connelly explains that the TQE program has resulted in 91% of each order being shipped on the first release, with completion of all releases averaging 19 to 20 days from date of order. The number of releases per order, he continues, has been slashed from between 4 and 5 to 2.2. "Our distributors tell us that it costs them

Electrical Distribution: %Sales by Product Group

Industrial controls	15.6
Power distribution equipment	12.3
Industrial/Commercial lighting	12.0
Wire—building	8.5
Fittings, boxes, fasteners	8.5
Lamps	7.4
Conduit and raceway	5.1
Wiring devices	4.7
Utility products	4.1
Residential lighting	3.5
Connectors, splicers, terminators	2.8
Cord and cable	2.6
Electric comfort conditioning	2.1
Fuses	1.7
Signal and communication	1.4
Tools	1.3
Motors	1.2
Ballasts	1.1
All other	4.1

Source: National Assn. of Electrical Distributors

Software that moves hardware

How would you define "same-day service"if you had to pick components from two warehouses, make an assembly and test it before shipping? If you shipped all such orders received before noon on the day received? Pretty good, no?

Not good enough. At Americable, an assembler/distributor of computer cabling and related devices headquartered in Minneapolis, Minn., with branches in Chicago, Dallas and Atlanta, turnaround time on some orders can be as speedy as two hours. That's 120 minutes. Four hours is old hat and yesterday's computer system.

Cheryl Riggle, a 14-yr MIS pro, says that the firm's new on-line computer system not only helps the 65-person inside sales staff work faster, but also helps the entire 250-person, $50 million organization work smarter.

Sellers work faster, she explains, because they have real-time access to stocking levels, availability and order status. "Inside salespeople simply call orders up on their screens and know immediately where orders are—when they were started and finished and the names of testers."

The system works well, Riggle continues, because of an enhancement to B.W. Rogers' *Tribute* software. "We devised a 'pull-pick-pick-pick-pack' scheme," she says. "The 'pull' orders direct warehouse people to pull bulk cable by bin location and a 'pick' is printed that will confirm the right cable for the job. Simultaneously, workers in the parts room 'pick' connectors and other components, again in bin sequence.

"At the same time, assembly 'picks' print out in the Quality Assurance department so that an assembler can be assigned to the task. Once the job is complete, it's sent to the shipping dock where it meets its 'packing' slip."

In this instance, *Tribute* initiates three processes simultaneously to help Americable meet emergency deadlines. It also, Riggle says, groups like products from incoming orders to optimize ordering. "We used to issue a hundred P.O.'s a day," she explains, "now we do 75, but that total reflects growth and what we can do with the system."

It took Americable about eighteen months to select *Tribute*. "We had every department involved," Riggle says. "We sent out 75 Requests For Proposal and got about 30 responses. We narrowed down to the top seven. The B.W. Rogers software provided the functionality that best suited our needs. In the end, our salespeople said that if we didn't choose *Tribute*, they'd just as soon start the process over."

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J-I-T/S-O-P

about $75 to handle each shipment," Connelly reports. "Our goal is to drop below 2 shipments per order."

In addition to shipping orders more quickly, Thomas & Betts is intent on jacking up service quality in several areas. For example, regional distribution centers have been cut from five to two. This allows more one-stop order filling involving less human handling. "Up to 99.8% of our order lines are filled accurately," Connelly notes.

It is this kind of push that provides strong backup of distributors who serve J-I-T contracts.

George Wilson, president of Denver's Ryall Electric Supply, says that "to supply our J-I-T contract industrial customers, we rely on makers who specialize in the higher quality industrial lines as contrasted to those manufactured for contractor customers. Wilson estimates that, having been in the industrial market for over 50 years, Ryall Electric's sales to industry account for 50% of the firm's total business.

"Vendors specializing in the lower grade contractor lines are less familiar with our support needs to service the J-I-T market," Wilson explains. "So when we bid on a contract, we concentrate on experienced, industrial-type vendors' products.

"Sometimes we lose the contract to a lower bid, but we are better off in the long run," Wilson says.

Cameron and Barkley's Friedrichs explains that the reputations of his firm's J-I-T accounts helps him avoid differentiating among suppliers the way Ryall's Wilson does. "We have multi-plant contracts with companies such as General Motors and General Electric," Friedrichs says. "Our suppliers recognize the importance of the highest quality service to these accounts—especially if we are to retain them for the long run." □

'A supplier's support is critical in order for J-I-T to succeed.'

J-I-T do's and don't's

Here's a list of things you should consider in negotiating a J-I-T contract.

J-I-T contracts offer distributors great and growing opportunities. But the unwary face some pitfalls. So say John P. Flanagan and James P. Morgan, co-authors of *Just-In-Time for the '90s*, published under the auspices of NAW's Distribution Research and Education Foundation. The book is important reading for distributors who are negotiating their first J-I-T contracts.

Flanagan and Morgan warn that a distributor is bound to fail unless he or she understands that J-I-T is a solid business **strategy**, not simply a **tactic** to shuffle inventory cards. Among the traditional mind sets that must be changed for success in J-I-T are the notions that:

- Inventory is traditionally thought of as an asset, but to J-I-T contractors and customers, it's a liability. The customer doesn't want to be burdened by inventory, expecting, instead, that the contractor provide it on a precise schedule. As a result, the distributor carefully manages his own inventory.
- Lot sizes have conventionally been seen as the economic number of units to manufacture. But under J-I-T, lot sizes are kept small to minimize work-in-process inventories which, in turn, influences distributor deliveries.
- Buyers have traditionally seen suppliers as adversaries to be played off against one another. But in a J-I-T relationship, the chosen supplier is seen as a partner in a mutually profitable relationship.
- Both parties have come to view workers as inherently valuable sources of suggestions on how to improve the quality of the material and its delivery.

Just-In-Time for the '90s, by Flanagan and Morgan, can be ordered direct from DREF at the NAW offices. The address is 1725 K Street, NW; Washington, DC 20026. For faster service, call NAW at (202) 872-0885. Better still, take advantage of your member benefits by ordering through your distributor association for a reduced cost.

BUSINESS REPORT

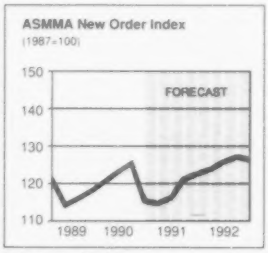
BY PAUL WATERS

Electronics strong in '91

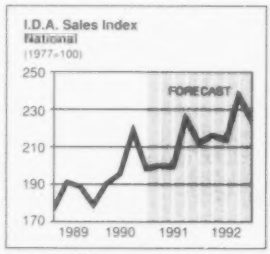
Double-digit growth seen for orders and shipments.

With low interest rates and strong business investment combining to brighten economic conditions by year's end, electronics distributors can expect both new orders and shipments to make strong gains over 1990 levels. Forecasts call for new orders to rise 13.2% this year and 14.1% in 1992, while shipments will swell 11.1% and 12.5% respectively.

Electronic components will lead this advance. Shipments within this subsector grew 3.5% in 1990 to $60 billion. Look for more than 5% growth in both 1991 and 1992. New component orders are also rising at a healthy pace. After a 3.3% climb in 1990, new orders for components will rise 6.1% in 1991 and 8.0% in 1992. Cahners Publishing research reports component leadtimes lengthening to 7.4 weeks in February, up a week from a year ago. As demand picks up, look for delivery times to remain above 6 weeks.



Data source: ASMMA
Forecast source: Cahners Economics

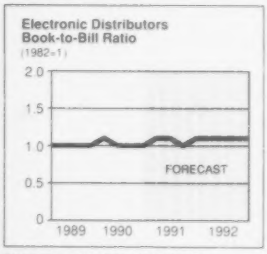


Data source: I.D.A.
Forecast source: Cahners Economics

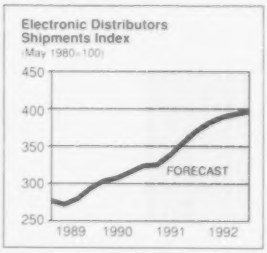
This upbeat news follows modest growth at the end of '90. In the final quarter, electronic distributors reported that new orders grew 9.6% from year-previous levels. Although this quarterly gain is the weakest recorded since 3Q '89, orders for all of 1990 made a healthy gain. According to the National Electronic Distributors Assn., new orders swelled 13.7% above the 1989 level. This performance represents a rebound from a 1.3% decline in 1989.

Book-to-bill ratios point to underlying strength in electronics distribution. The most recent data revealed that this measure stood at 1.04 compared to only 0.98 in December, 1989. This is the sixth consecutive month the book-to-bill ratio has stood above 1.00. Cahners Economics expects the ratio to stay above 1.00 in every quarter, averaging 1.06 for all of 1991.

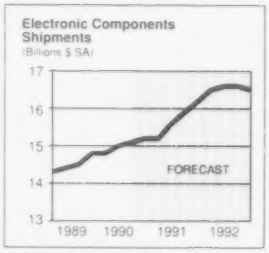
Electronic distributor shipments inched up 3.1% from an index value of 324 (1980=100) in November to 334 in December, 10.2% above the fourth quarter 1989 level. In addition, shipment data for the entire year came in slightly stronger than anticipated. Shipments ended 1990 with a gain of 11.4% over the 1989 level. Expect distributor shipments to continue rising this year, albeit at a slower pace than that for orders. □



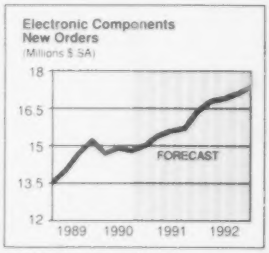
Data source: Natl. Elec. Distributors Assn.
Forecast source: Cahners Economics



Data source: Natl. Elec. Distributors Assn.
Forecast source: Cahners Economics



Data source: Commerce Dept.
Forecast source: Cahners Economics



Data source: Commerce Dept.
Forecast source: Cahners Economics

(1977=100)	SALES Jan. 1991	SALES Dec. 1990	SALES Jan. '91 vs Jan. '90 % change	RECEIVABLES Jan. 1991 days	INVENTORY Jan. 1991 Dec. 1990 % change
TOTAL	203.1	185.3	6.1	39.1	0.6
EAST	212	189.9	33.2	44	-0.6
SOUTH	294.9	258.3	16.1	38.1	1.9
CENTRAL	165.3	150	-2.2	38.9	0.0
WEST	211	199.9	9.4	33.9	1.5

SOURCE: Industrial Distribution Assn.

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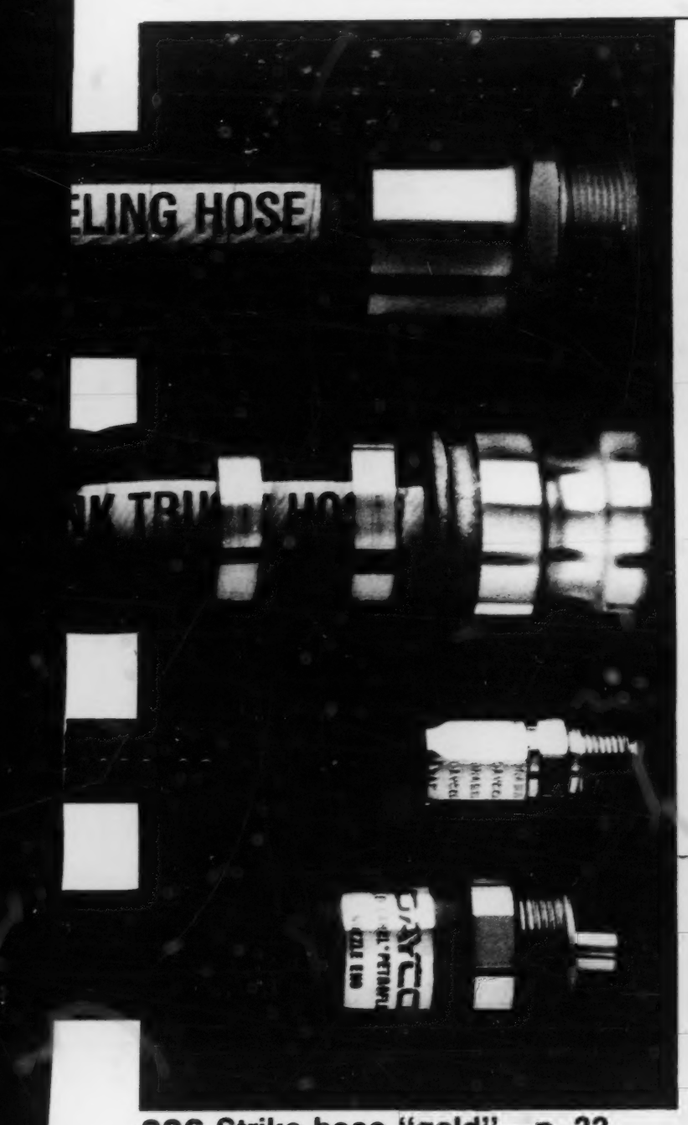

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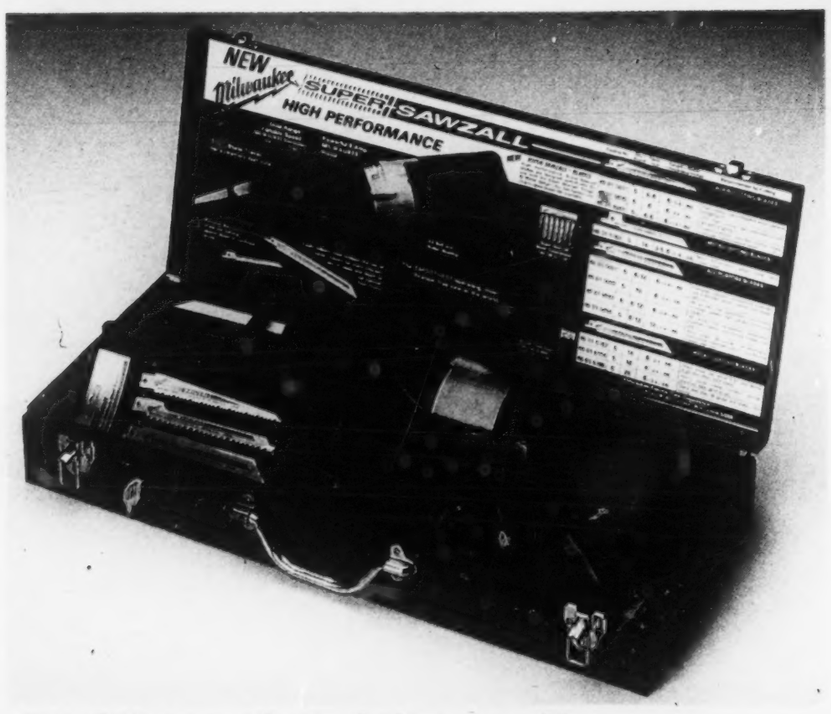

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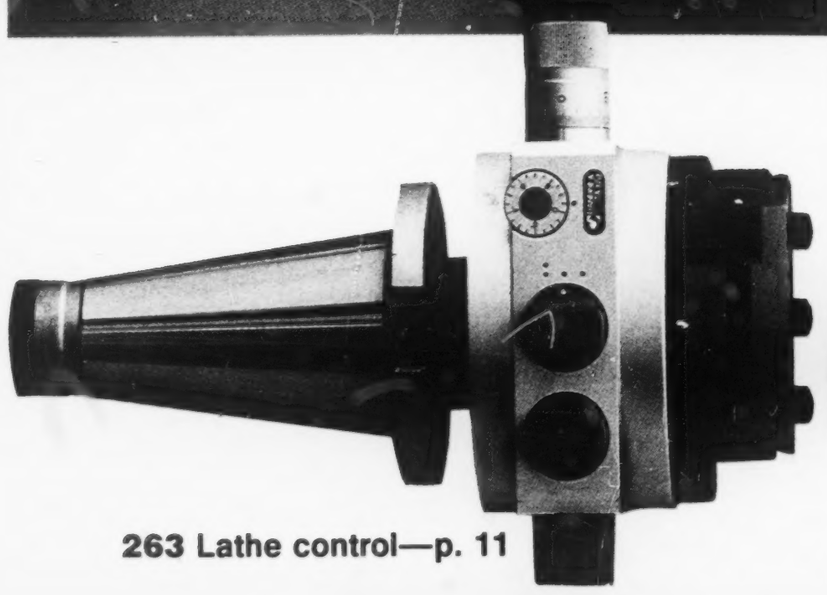

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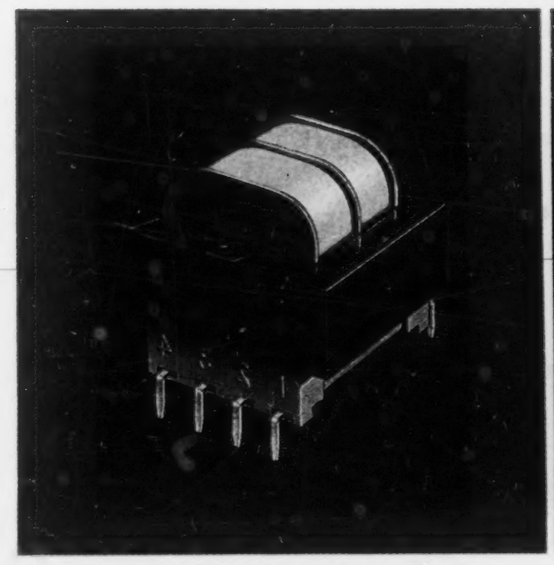

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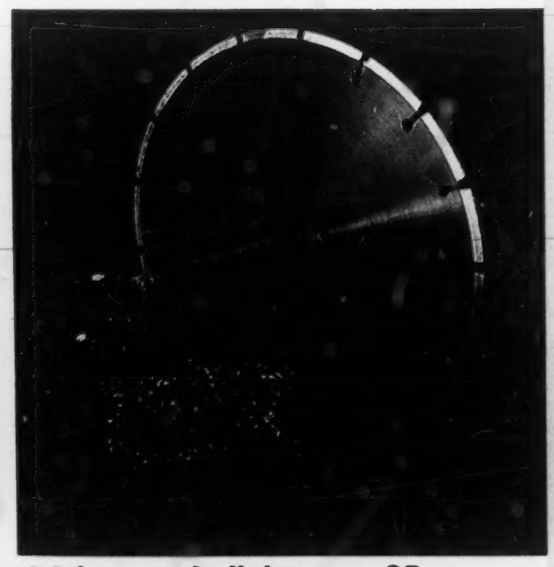

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Brock controls sales data; SSI manages inventory; Integrated WYSIWYG creates labels; TIMS fills a DEC.

53 Parade leads to one-stop shop credibility.
Loctite isolates electrons; Bostik melts at low temps; Armstrong seals won't blow; DeVilbiss stainless sprays solvents.

69 Bins 'n baskets handle hazmats 'n bulkies.
Justrite contains waste; Buckhorn endures round trips; Colvin thermoforms ride piggyback; Penco adapts.

7 **Editor's Page**

72 **People & Companies**

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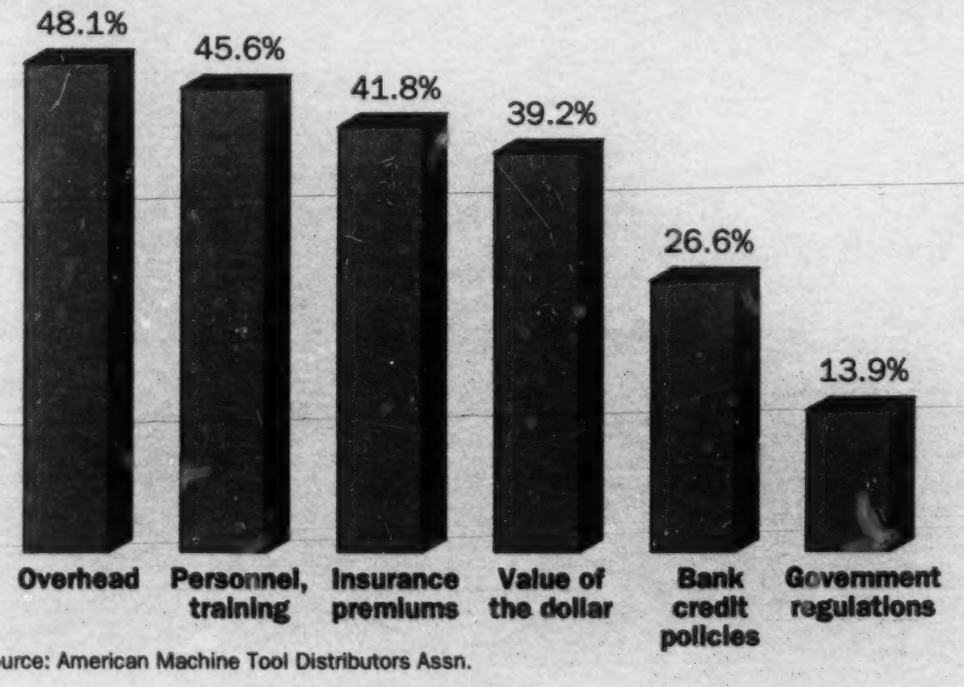
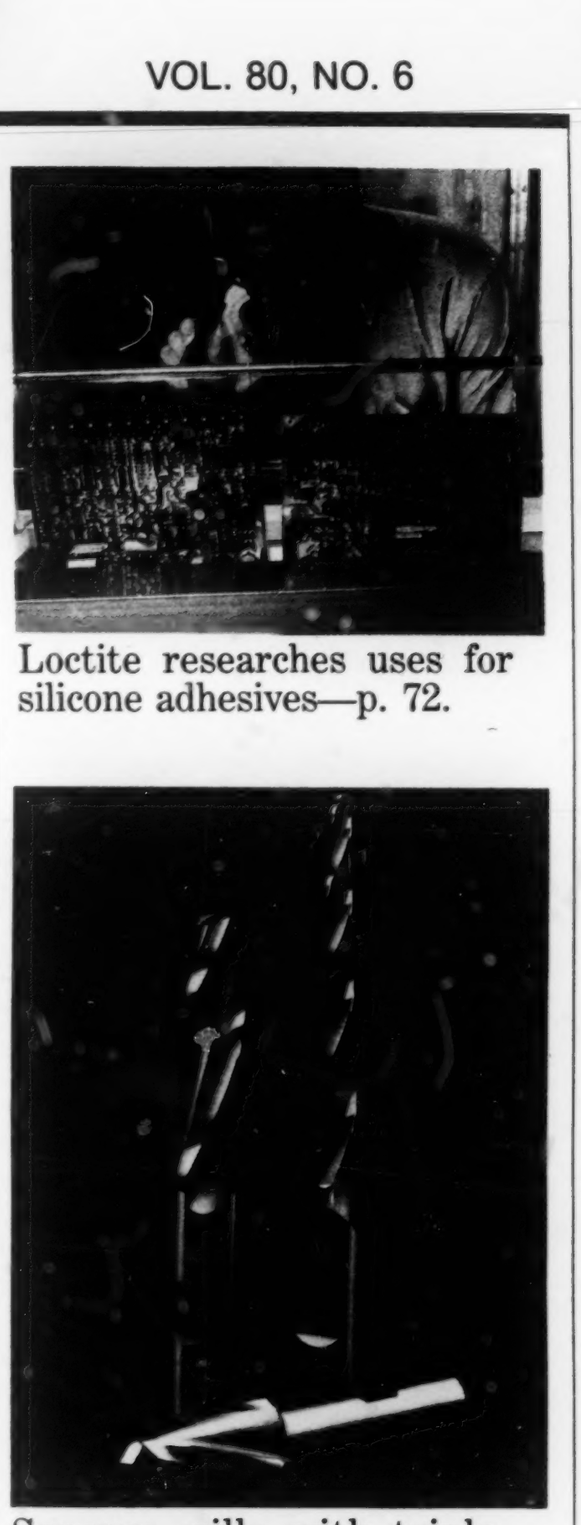
WHAT RECESSION?

Distributors name their most serious concerns in '91

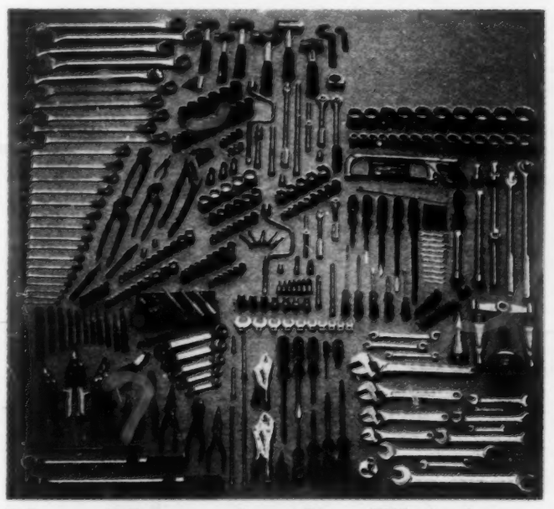


Source: American Machine Tool Distributors Assn.

Loctite researches uses for silicone adhesives—p. 72.



Sossner mills with triple-flute tapers—p. 12.



MegaMaster's the Wright set—with cabinet—p. 30

From hot melts to wheels, spec sheets keep you informed—p. 54